



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

JUL 16 2010

OFFICE OF
AIR AND RADIATION

MEMORANDUM

SUBJECT: FY 2010 Federal Managers' Financial Integrity Act Assurance Letter

FROM: Karl Simon, Director
Compliance and Innovative Strategies Division (CISD)

TO: Margo Tsirgotis Oge, Director
Office of Transportation and Air Quality

PURPOSE

In accordance with the Federal Managers' Financial Integrity Act (FMFIA) and Agency guidance, I am submitting the FY 2010 annual assurance letter attesting to the soundness of internal controls for the Compliance and Innovative Strategies Division (CISD).

STATEMENT OF ASSURANCE

Under my leadership, CISD has assessed the effectiveness of its internal controls based on the five standards for internal control established by the Government Accountability Office. In my judgment, CISD complies with Federal Managers' Financial Integrity Act requirements, and the internal controls within CISD are adequate to reasonably ensure the protection of the programs, operations, functions, and resources for which I am responsible against fraud, waste, abuse, and mismanagement.

FRAMEWORK FOR ASSESSING INTERNAL CONTROLS

CISD is responsible for developing and implementing national air pollution control strategies required by the Clean Air Act for vehicles, engines, and fuels. CISD manages all national clean fuel programs, including the renewable fuels program. CISD also manages the certification, in-use compliance, and recall programs for U.S. vehicles and engines, including nonroad engines. CISD oversees fuel economy and Corporate Average Fuel Economy (CAFE) compliance, and develops the Fuel Economy and Green Vehicle Guides. CISD is also responsible for information management for the vehicle, engines, and fuels programs.

A program review strategy has been finalized for these activities.

CISD does not use the NPM guidance process as an internal control to ensure effective program operations because CISD implements national program that does not involve regional priorities, risks, or commitments.

RESULTS OF INTERNAL CONTROL REVIEWS

Over Programmatic Operations

CISD does not have the lead for addressing any of EPA's current weaknesses.

Over Financial Activities (A-123)

Funds Control

Financial reports that identify funds spent to date, as well as remaining balances, measured against operating plans for the fiscal year, are available at any time for management review. This tool allows managers an opportunity to ensure proper allocation of funds based on organizational goals and allows for corrections in a timely manner.

Unliquidated Obligations (ULO)

Unliquidated balances in miscellaneous and travel were reviewed and any funds that need to be deobligated were identified and proper documentation transmitted to the finance center and appropriate administrative organization (e.g., OAM, OGD) on or before June 30, 2010.

CURRENT WEAKNESSES

CISD does not have the lead for addressing any of EPA's current weaknesses.

NEW OR EMERGING ISSUES

CISD does not have the lead for any of EPA's new management challenges or proposed weaknesses.

ACCOMPLISHMENTS AND BEST MANAGEMENT PRACTICES

CISD programs involve a wide array of activities ranging from certification and compliance, data collection and management, enforcement, and outreach and international activities. Our efforts have been successfully managed through effective management controls as described in the following summaries of our key accomplishments to date in FY 2010.

Certification Fees

CISD has continued successful implementation of the Certification Fees Rule, which became effective in 2004. In FY 2009, EPA collected approximately \$18.2 million in certification and compliance fees from the light-duty vehicle, light-duty truck, heavy-duty vehicle and engine, nonroad engine, and motorcycle industries. On January 29, 2010, EPA issued manufacturer guidance for the annual adjustment of the certification fees for calendar year 2011.

Greenhouse Gas Final Rulemaking

On April 1, EPA and the Department of Transportation's National Highway Traffic Safety Administration (NHTSA) finalized a joint rule to establish a national program consisting of new standards for model year 2012 through 2016 light-duty vehicles that will reduce greenhouse gas emissions and improve fuel economy. EPA finalized the first-ever national greenhouse gas (GHG) emissions standards under the Clean Air Act, and NHTSA finalized CAFE standards under the Energy Policy and Conservation Act. CISC provided significant contributions to the development of the rulemaking.

Upon completion of the final rule, CISC immediately began working on program implementation as manufacturers will begin certifying model year 2012 passenger cars and trucks beginning in the August/September 2010 timeframe. CISC held a workshop with the light-duty vehicle industry on June 17 to kick off program implementation; future meetings are planned for late summer 2010.

Alternative Fuels Conversions Rulemaking

On May 5, EPA issued a proposed rulemaking to modify certification and compliance procedures for clean alternative fuel vehicle and engine conversions. EPA conducted a public hearing on the proposal on June 23 and will accept public comment until July 23.

Carbon Dioxide Emissions and Fuel Economy Trends Report

In November 2009, CISC, in collaboration with OTAQ's Transportation and Climate Division, published the 2009 Light-Duty Automotive Technology, Carbon Dioxide Emissions, and Fuel Economy Trends Report. The Fuel Economy Trends report has been published by EPA every year since 1975 and is the most authoritative source of U.S. fuel economy data. This report also included carbon dioxide trends for the first time. The report is widely used by a broad range of stakeholders, including independent analysts, industry, environmental groups, congressional staffers and reporters.

Certification and Compliance Highlights

- Issued 3,550 certificates of conformity for cars, trucks, and motorcycles, as well as nonroad engines used in construction or farm equipment; locomotive and marine engines; small engines used in lawn and garden equipment; and snowmobiles and all terrain vehicles. The number of certificates CISC issues has more than quadrupled since 1995.
- Issued certificates to Ford and GM for new clean technology diesel heavy-duty vehicles utilizing diesel particulate filters and selective catalyst reduction (SCR) NOx control systems. Both vehicles were equipped with newly designed diesel engines built by Ford and GM.
- Issued first ever certificate for plug-in hybrid conversion kit. The kit covers 2006, 2007, 2008, and 2009 MY Toyota Prius hybrids.
- Certified several electric motorcycles and several electric hybrid motorcycles.
- Successfully certified and confirmatory tested on E85 test fuel, Flexible Fuel Vehicles (FFV) from Chrysler, GM, Ford, Nissan, and Toyota.
- Issued first evaporative emissions certificates for nonroad spark-ignited engines.

- Held industry meeting, issued guidance and revised application templates to facilitate implementation of new certification provisions for small spark-ignited, marine spark-ignited and marine compression-ignition engines.
- Issued first marine Engine International Air Pollution Prevention (EIAPP) certificates for engine families covered by MARPOL Annex VI. Issued guidance on procedure of exchanging voluntary compliance for certification.
- Continued to conduct confirmatory certification tests of small spark-ignition and nonroad compression-ignition engines.
- Continued heavy-duty highway confirmatory certification testing.

In-Use Testing/Recalls

In FY 2010 to date, CISC successfully recruited and tested approximately 150 in-use vehicles which represent millions of similar vehicles being used on the road today. As an example of the efficacy of in-use testing in FY10, Kia agreed to recall vehicles because of an emission-related defect discovered in CISC testing programs. Final plans for the recall are currently under discussion with the manufacturer.

Manufacturer Defect and Recall Reports

In FY 2010 to date, we reviewed 270 defect reports and 50 voluntary emission recalls associated with light-duty vehicles. The information gathered from these reports was used to help select vehicles for EPA's in-use surveillance testing. Several manufacturer inquiries were made based on the information contained in these reports. Technical service bulletins and customer inquiries were also cross referenced against the defect reports received to insure proper reporting. In addition, heavy-duty and nonroad manufacturers submitted approximately 50 defect reports and 15 voluntary emission recall reports.

Green Racing Initiative

CISC continues to play a key role in a partnership with the Department of Energy and the Society of Automotive Engineers (SAE) International to develop and implement an initiative for green racing. The goal of green racing is to use motor sport competition to help rapidly develop cleaner, more fuel efficient vehicle propulsion systems that will eventually be used in consumer vehicles. It is anticipated that the high level of interest in motor sports could bring this technology to the attention of the public and hasten its acceptance in the automobile market.

On October 11, 2009, EPA, DOE, and SAE International awarded the first Green Challenge Championship trophies at the annual American Le Mans Series (ALMS) awards ceremony in Monterey, California. The Green Challenge Championship was the culmination of a series of nine races over the 2009 ALMS racing season. The final race was run on October 10, 2009 at Mazda Laguna Seca Raceway near Monterey. For each of the races, the Green Challenge competition was a "race within a race" where the ALMS sports car races went on as usual, but Green Challenge measurements and computations served as an underlying competition for the fastest and greenest competitors.

Public Information: Car Allowance Rebate System (CARS)

CISD continued to respond to inquiries and data analysis requests related to the Car Allowance Rebate System (CARS) program, also known as 'Cash for Clunkers.' This congressionally authorized program in 2009 allowed customers to trade in their old, "gas-guzzling" vehicles and receive vouchers for the purchase or lease of new, more fuel efficient cars and trucks. CISD manages the fuel economy database that was used to determine which vehicles would qualify for the program. CISD reviewed the data to ensure its quality and confirm vehicle eligibility. In many instances, CISD was the only source of this information as the automobile manufacturers no longer maintain data on their older model year vehicle lines.

Fuels Reporting System and DCFUEL LAN Information System Security (DCFUEL)

In June 2010, we provided our annual security self-assessment submission for DCFUEL and we updated our system security plan (SSP) to include the new EPA Moderated Transaction System (EMTS). (See description of EMTS under "Fuels," below.) Required background checks for contractors and new hires who work with DCFUEL were completed throughout the year and on an as needed basis. Annual training regarding the rules of behavior for DCFUEL was conducted in October 2009 and will be repeated in October 2010. An independent risk assessment of DCFUEL was conducted in October 2009.

Fuels

CISD is playing a vital role in implementation of the renewable fuels standard (RFS2) program. Ongoing implementation support includes directly assisting parties in registering for the RFS2 program, reviewing registrations submitted, answering compliance questions and preparing "Q and A" documents, and providing assistance in registration and reporting activities.

In order to better serve the reporting community, we developed the EPA Moderated Transaction System (EMTS) for RFS2. CISD launched this new system, which was developed to manage Renewable Identification Number (RIN) transactions. (RINs are similar to marketable credits and each RIN represents one gallon of renewable fuel.) Renewable fuel producers and importers, gasoline and diesel refiners, renewable fuel exporters, RIN owners, and any other RFS2 regulated parties were required to use EMTS starting July 1, 2010. CISD created tutorials and other information to help regulated parties learn about EMTS in advance of the start date.

CISD continues to make improvements to registration and reporting processes for all fuels programs we administer under 40 CFR Parts 79 and 80. For example, the Central Data Exchange (CDX) registration process has been simplified for all programs. On-line forms are being developed for fuel and fuel additive registration under 40 CFR Part 79. The processes of encryption and electronic signature are being streamlined as well, in order to provide safe and simplified reporting for regulated parties.

CISD is playing an active role in implementing the OAR-wide Greenhouse Gas Mandatory Reporting rulemaking which involves many of our major regulated parties, including refiners. We are designing reporting formats based upon existing fuels programs in an effort to reduce the burden on the regulated community.

In 2009, we received a request for a fuel waiver under section 211(f)(4) of the Clean Air Act for 15 volume percent ethanol (E15) and commenced a notice and comment process that will lead up to a decision by the Administrator. We are awaiting test data from the Department of Energy (DOE) that will play an important part in reaching a waiver decision.

CLOSING

Please feel free to contact Deborah McSwain of my staff with questions regarding this submission on 202-343-9284.

ATTACHMENTS

Attachment B

Attachment 1

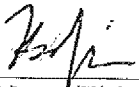
cc: Annette Morant, OCFO
Cheryl Varkalis, OCFO
Patrick Gilbride, OIG

**ENVIRONMENTAL PROTECTION AGENCY
FY 2010 INTEGRITY ACT REPORT**

Control Environment

- Integrity and ethical values – CISD management are personally committed to ensuring the existence and implementation of codes of conduct and other policies regarding acceptable business practices, conflicts of interest, or expected standards of ethical and moral behavior.
- Commitment to competence – CISD develops unique formal job descriptions that define the tasks involved in particular jobs and the skills needed to adequately perform particular jobs.
- Management's philosophy and operating style – CISD management favor sound internal controls to ensure the integrity and conformance of its financial systems and program operations to EPA-wide standards, and to increase transparency and accountability. Systematic and rigorous reviews that address risks and vulnerabilities are welcome.
- Organizational structure – CISD strives to provide the necessary information flow to manage its program.
- Assignment of authority and responsibility – CISD management follow EPA standards and procedures to ensure appropriate delegation of authority to deal with organizational goals and objectives.
- Human resource policies and practices – CISD adheres to EPA policies and procedures for hiring, training, promoting, and compensating employees.
- Oversight groups – CISD works in close collaboration with internal and external groups that review and monitor financial and/or program activities.

Senior Resource Official:



Name/Title/Organization

202 343-9626

Telephone No.

JUL 16 2010

Date Prepared

**PROGRAM REVIEW STRATEGY
MULTI-YEAR PLAN (FY 2010 – FY 2012)**

Organization (A/Ship / Regional Office: Office of Air and Radiation)

This form provides a sample format for outlining a multi-year program review strategy and documenting reviews (of programs, functions, or activities) conducted in FY 2010.

Internal Control Reviews (program, function or activities)	Year of Review	Type		Summary of Review	Deficiencies Identified (if applicable)	Corrective Actions	
		internal	external			completed	remaining
Purchase Cards	Ongoing	OTAQ/CISD		Purchase card oversight team periodically audits purchases made by individual bankcard holders to verify SOP were followed and all signatures acquired.	None		
Property Management	2010	OTAQ/CISD		All property accounted for on and off site	None		
Funds Control	Ongoing	OTAQ/CISD		Oversight monitoring and reconciling expenditures is performed monthly.	None		

Signature: _____

Responsible Manager: _____

Date: JUL 16 2010